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RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 002350

SIPDIS

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EUR FOR DAS BRYZA
SCA FOR STEVE MANN
EEB FOR GALLOGLY AND EIGHMIE
USDOE FOR ALAN HEGBURG
USDOC FOR 4212/ITA/MAC/CPD/CRUSNAK
TDA FOR DAN STEIN

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SUBJECT: TURKEY'S INCONSISTENT IRAN POLICY (PART I): ENERGY
DEALING

REF: A. ANKARA 1945
[1](#)B. ANKARA 2135

Classified By: EconCouns Dale B. Eppler, reasons 1.4 b, d

[1](#)1. (U) This is the first of a two-part cable on Turkey's
Iran policy. Please see part II, septel.

[1](#)2. (C) SUMMARY. Through a string of recent energy deals
with Turkey, Iran is demonstrating a continued capacity to
conduct business in the international arena. Turkey has been
all too accommodating of Iran's entreaties for three reasons:
huge increases in domestic energy demand on the horizon; EU
desire for alternate gas supplies; and Turkey's strategic
transit location. The GOT knows Iran is an unreliable and
untrustworthy partner, recalling past commercial deals gone
south and Tehran's inability to deliver on energy deals it
signed with other countries, but still feels impelled to
engage with this neighbor. END SUMMARY.

TURKISH DEMAND DRIVING IRAN ENERGY DEALS

[1](#)3. (SBU) Turkey has been importing gas from Iran since 2001.
In July and August 2007 the GOT signed two preliminary MOUs
with Iran -- one on natural gas and one on electricity. Both
MOUs will require considerable further negotiation and tough
bargaining to be finalized (ref A, B).

[1](#)4. (C) Turkey has a growing energy and electricity supply
problem, and sees gas-fired turbine power plants as the
fastest way to meet its looming electricity shortage. Some
55 percent of Turkey's natural gas consumption is for
electricity. That percentage will rise as natural gas
consumption increases from 35 billion cubic meters (bcm)
annually to 60 bcm by 2015. Given Turkey's huge energy
needs, the GOT does not see how it can refuse to agree to
take as much gas as Iran is willing to provide, even if
Iran's capacity to deliver it is currently very limited. GOT
officials acknowledge U.S. concerns about Iran but

retorically ask us to find an alternative source for the 20 bcm foreseen in the Iran MOU. Such a large quantity of gas would allow Turkey to supply its own market as well as transit supplies to Europe. According to GOT officials, the EU has been prodding Turkey to conclude a deal with Iran, and Turkey views gas supplies to Europe as an important building block for its EU accession bid. The Turks have made clear that Iran is not their preferred supplier, but also that they do not have sufficient confidence in Caspian supplies to bet their economic future on them.

TURKMEN GAS CRITICAL TO THE MOU

15. (C) In terms of the MOU, Turkmen gas might prove more important than Iranian gas. A trans-Caspian pipeline (TCP) will be a key factor in making Iranian gas less attractive. But Energy Ministry officials all ask the same thing: "Where is the United States on Caspian gas? We need to see action, not just talk." The Iranian deal promises to actually deliver Turkmen gas through the construction of separate pipelines to transit the gas through Iran, into Turkey and on to Europe. In addition, when compared to Iran, the development of GOT relations with Turkmenistan has lagged.

TURKS KNOW IRAN IS UNRELIABLE, BUT PRESS AHEAD

16. (C) Turkish officials always keep in mind the historical ups and downs in the Turkey-Iran relationship, especially past difficulties Turkish companies have had when striking deals with the Iranians. MFA Deputy Director General for Iran Babur Hizlan cited the last-minute cancellation of contracts that had been negotiated by the Turkish TAV to

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build a new airport in Tehran, and by Turkcell to upgrade Iran,s cellular phone system, as examples of Iran,s unreliability.

17. (C) While Turkey will continue to be cautious, it is pushing forward on energy. The Turkish press has announced that an Iranian delegation will visit Ankara in October to sign the "final" agreement. However, major hurdles remain. British Petroleum Istanbul Manager Oktay Sen said that Turkish Petroleum Corporation has neither the technical ability nor the financing to realize this project. In his view, the GOT will need foreign partners for the project, which is complicated by U.S. sanctions. Iranian conditionality, limiting Turkey's resale rights, might also be a dealbreaker. GOT officials have actively promoted a vision of Turkey as a regional energy hub. Turkey provides the only realistic overland route for Iranian gas to Europe and the GOT is betting that Iran will eventually come around.

FLIPPING TURKEY'S SWITCH

18. (C) Like the MOU on gas, the electricity MOU aims to increase electricity supply in Turkey. The MOU foresees the import of 3-6 billion kilowatt hours (kWh) from Iran, to be provided by the construction of three new gas-fired power plants located in Iran and Turkey. In addition, Turkey, Iran and Turkmenistan would establish a joint venture to build a power plant in Turkmenistan. This MOU is an umbrella agreement that paves the way for private investors and will likely reward ruling Justice and Development Party (AKP)-favored companies. As an example, only one company, Savk Elektrik, holds the license to import power from Iran. Savk received the license in 2004, long before the signing of the current MOU; it is valid through 2009. Its chairman is Cihan Kamer, a close friend of PM Erdogan -- Kamer gained unwelcome attention in the press for gifting Erdogan,s son 30kg of gold coins for his wedding.

COMMENT

19. (C) The economic performance of the first AKP government was critical to its electoral success. This new, re-elected AKP government has pledged to again double Turkey's per capita GDP over the next five years. Securing an adequate supply of energy will be critical to sustaining the high level of economic growth necessary to meet that pledge. While serious doubts remain about Iran's reliability and the feasibility of the preliminary energy agreements with Iran, the GOT is no less skeptical about the alternatives. Charting with the GOT a clear way forward on trans-Caspian gas will, therefore, be essential in dissuading the Turks from ultimately implementing these agreements with Iran.

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WILSON